Food for Peace: The P.L. 480 Program

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Foreign Agricultural Service • July 1980
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The four titles of P.L. 480 include:

Title I—Concessional sales

Title II—Donations for disaster relief

Title III—Food for development

Title IV—General provisions

''The Congress hereby
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courage economic de-
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countries. . . .''
With these words, the
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How P.L. 480 Got Its Start

The seeds for P.L. 480 were sown in America's grain fields in the early 1950's. Big increases in yields and the absence of acreage restrictions produced a succession of huge grain crops, far in excess of U.S. needs.

Storing these grains was costly; the obvious solution lay in exports. However, many of the countries that could use U.S. grains lacked the foreign exchange to buy them.

P.L. 480 was proposed as a way out of this dilemma. Basically, it permitted the United States to sell its surplus agricultural commodities to friendly nations abroad

and accept those nations' local currencies in payment.

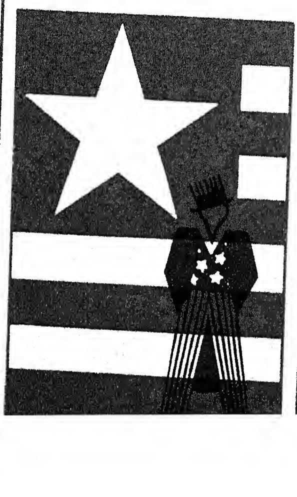
The law also included authority to donate commodities in cases of emergencies or disasters.

However, over the years P.L. 480 has evolved into something far more than a commodity supply management tool. It has also been an important vehicle for developing commercial export markets, for meeting humanitarian food needs, and for spurring economic and agricultural growth in the developing world.

A Bit of History

At the outset of the program, recipient countries paid cash for U.S. agricultural commodities with their own currencies.

The United States used these currencies to



replace foreign exchang it otherwise would have spent on U.S. operations in the recipient countries These currencies could not, however, be converted into dollars.

By the late 1950's, however, P.L. 480 assumed importance as a means of improving the U.S. balance of payments position. In 1959, Congress added a provision to require the more developed recipients to pay for P.L. 480 commodities in dollars, on liberal credit terms.

In 1966, the law was amended again to require a progressive transition for all recipients from purchases in their own currencies to purchases in dollars, or in local currencies which could eventually be exchanged for dollars.

That same year, 1966, marked a shift in program emphasis as well.

Amendments to the law deleted reference to U.S. surpluses, and it became U.S. policy to use this country's abundant, though not unlimited, agricultural productivity to combat hunger and malnutrition abroad.

In addition, the United States also decided to use its agricultural capacity to assist countries that were determined to improve their own agricultural production—leading ɔ a self-help program.

-urther amendments to .L. 480 re-emphasized e importance of self-elp efforts in recipient ountries and assured at the bulk of conces-onal commodity sales ould go to the poorest id neediest of the orld's nations.

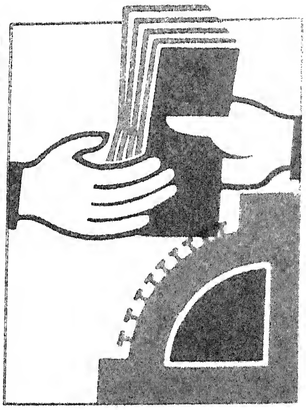
low P.L. 80 Sales lelp Other ountries

e of the biggest pluses P.L. 480 for recipients hat it allows them to / the farm products y need, but save their eign exchange for ending on other priority orts.

time, of course, those ntries will have to ay the United States lollars or in local cur-cies convertible into ars.

wever, most P.L. 480 s agreements include ace period during ch the payment of cipal is deferred. Dur-this period buyer ntries may use for elopment projects any s earned from P.L. sales to their own ntrymen.

e grace period—led with extended yment periods at in-t rates well below nercial items—also



adds a substantial grant element to P.L. 480 sales.

Under the most lenient payment terms, this grant component may amount to as much as 60 per-cent.

What the United States Gains

Summing up the benefits to the United States, Public Law 480 has:

—increased foreign market demand for U.S. farm products, enabling U.S. agriculture to ex-pand production and earn more.

—established trade rela-tionships with a number of developing countries, setting the stage for growth of commercial markets over time.

—enjoyed balance of payments benefits from

P.L. 480 shipments which in all have amounted to more than $5 billion from the beginning of the program to the present.

These benefits came chiefly from principal and interest payments on P.L. 480 loans and from foreign currencies used by U.S. agencies abroad.

In addition, the U.S. government was allowed to sell these local currencies to U.S. businessmen and tourists abroad, improving the U.S. payment position by cutting down on the outflow of U.S. dollars overseas.

Boosting Commodity Demand

Since 1954, some $33 billion worth of U.S. farm products have been shipped overseas under P.L. 480. Food and feed grains represent nearly half the total—wheat shipments came to $11.8 billion and feed grains to $3.1 billion.

Other major commodity exports were cotton ($2.6 billion), soybean oil ($2.1 billion), and nonfat dry milk (approximately $1.5 billion).

Blended foods, high in protein sources fortified with vitamins (mainly corn-soya milk and wheat-soya flour), have

become increasingly portant in recent yea the title II program.

P.L. 480 has been cially important to th tion's grain producer

In the first decade program, almost half all U.S. rice and 60 cent of all wheat exp were shipped under 480.

From the mid-1960' the mid-1970's, roug two-fifths of the total ports of both rice and wheat were shipped under it.

Turning A To Trade

Korea is perhaps the example of the marke expansion benefits to United States as a re of the P.L. 480 progra

A title I recipient since 1955, Korea is now the sixth largest market in the world for U.S. agricultural products, with annual purchases of about $1-1/2 billion.

Taiwan is another market whose purchases have shifted from over 90 percent P.L. 480 to 100 percent commercial. U.S. agricultural exports to Taiwan have risen from $52 million to over $1.0 billion.

Major Recipients

Roughly 80 percent of the shipments under P.L. 480 have been to the developing world—in fact, P.L. 480 has accounted for nearly 30 percent of total U.S. direct economic aid to the developing countries since 1954.

The biggest recipients of P.L. 480 assistance since the start of the program have been:

India ($6.2 billion),
Pakistan ($2.3 billion),
South Korea ($2.1 billion),
Egypt ($2.8 billion),
South Vietnam ($1.5 billion)
and Indonesia ($1.7 billion).

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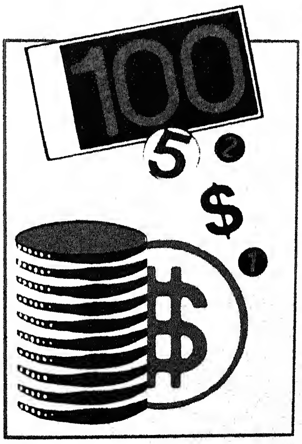
Following is a brief description of P.L. 480's four titles, and some of their more important provisions.

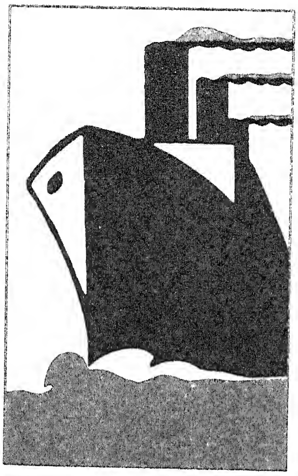
Title I: Concessional Sales

Title I, the concessional sales part of the P.L. 480 program, allows developing countries to buy U.S. agricultural products for dollars, but payments can be stretched out over as many as 20 years, and interest rates are much lower than with commercial financing.

For those countries not capable of going directly to 20-year dollar credit sales, title I does allow for credit sales on 40-year terms with grace periods on principal repayments of up to 10 years.

The law also allows payment in local currencies, with the understanding that the United States can eventually exchange these into dollars. However, this option has





never been exercised—in practice, all installment payments on title I sales are in dollars.

In accordance with the law, most agreements provide for cash down-payments ("initial" payments) of 5 percent, and "currency use payments," paid on delivery in local currencies and used for U.S. expenses in the importing country. Currency use payments usually amount to 5 to 10 percent of the commodity value.

Recipient countries may use P.L. 480 commodities to build food stocks or they can resell the commodities internally and use the proceeds for agricultural and economic development projects.

They can *not* ship P.L. 480 commodities to other countries, nor are they allowed to export similar commodities without U.S. approval.

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Departments of Treas
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the Agency for Interna
tional Development.

A major concern of
those reviewing a title
application is that con
cessional sales of U.S
farm products not rep
commercial exports fr
the United States or o
friendly nations.

Third country consult
tions are usually held
with other important
market suppliers. In ac
tion, the sales agreem
includes a mutually
agreed-upon level for
commercial imports by
the recipient country
based on its recent im-
port history.

Once the agreement i
approved in Washingto
it is usually negotiated
and signed in the recip
ient country by officials
that country and U.S. c
ficials assigned there.

Actual sales under titl
are made by private U.
suppliers, usually on a
bid basis, to foreign im-

porters, government agencies, or private trade agencies overseas.

Under U.S. cargo preference requirements, at least half of the quantity of title I commodities must be shipped on U.S. flag vessels.

However, USDA's Commodity Credit Corporation absorbs the difference in cost for cargoes that have to be shipped on higher cost U.S. flag vessels.

Title II: Donations for the Needy

Title II is the donation program of P.L. 480—the outgrowth of the concern of the U.S. people for those overseas who are less fortunate.

Over the years, donated U.S. foods have often made a life-or-death difference for victims of earthquakes, hurricanes, volcanoes, floods, droughts, and civil strife.

These foods have also been an important weapon in the ongoing battle against world hunger and malnutrition, in many cases serving as the margin between mere existence and good nutrition and health.

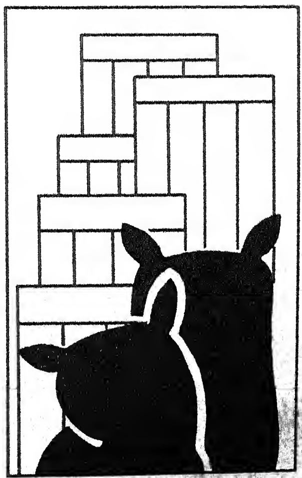
More than $8 billion worth of U.S. agriculture products have been donated under title II since 1955.

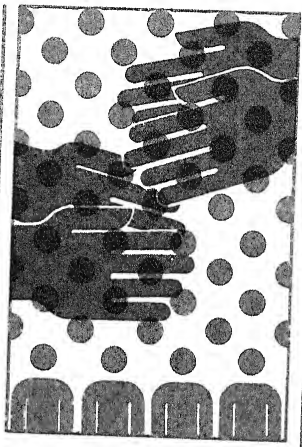
Donated U.S. foods serve as the mainstay of many school lunch, preschool feeding, and mother-child health care programs around the world.

They also figure importantly in the U.S. commitment to help the world's needy become self-sustaining through economic and agricultural development.

Under title II, U.S. farm products are used in food for work programs to pay foreign workers for their labor on such public projects as building schools and roads, improving village water and sanitation systems, and digging wells and irrigation ditches.

Roughly two-thirds of the tonnage shipped under title II is donated





through nonprofit U.S. voluntary agencies such as CARE (Cooperative for American Relief Everywhere), Catholic Relief Services, Seventh Day Adventist Services, Church World Service, Lutheran World Relief, American Joint Distribution Committee, and the Cooperative League of the United States.

These organizations are able to combine food distribution activities with development and nutritional goals. In particular, they provide nutritional information to foreign food recipients so that donated foods can be put to their best use.

Title II donations are also made directly to recipient governments, mostly for large emergency feeding programs, and through multilateral organizations such as UNICEF (United Nations International Children's Emergency Fund) and the World Food Pro (WFP).

The WFP is financ voluntary contributic commodities, servic cash by members o United Nations and Food and Agricultur Organization.

Most of the food is tributed as part of th wages of people employed in developme projects. The United States and other don make commitments t WFP every 2 years.

Title III: Food for Developme

Title III, which was ad to P.L. 480 in 1977, is also designed to help world's needy to help themselves.

In particular, this title concerned with betteri the lives of small farm tenants, sharecroppers landless agricultural workers, and others wh depend for their livelihood on agriculture an related activities.

Basically, title III—known as Food for Dev opment—allows foreign governments to purcha U.S. agricultural commodities on title I terms and resell these commodities in their own countries.

However, instead of paying the United State

for commodities, they may use the proceeds from local sales (or the commodities themselves) for self-help projects which increase farm production; improve storage, transportation, and distribution of farm products; or improve the quality of rural life through health and nutrition or family planning programs.

As the currencies are used, an equivalent dollar value to the title I debt is offset.

A country must be eligible for a title I agreement before a title III program can be approved.

Also, since title III provides for development programs in addition to what the recipient country is already doing, adequate technical and economic analyses and review are required in designing the program as well as in monitoring and evaluating progress.